

Message Text

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ACTION ARA-14

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TAGS: ECIN, ECON, EFIN, BEXP, NU
SUBJECT: NEW TAX PROPOSALS BY GON

REF: A) MANAGUA 2980 B) MANAGUA 2859 C) MANAGUA 2757

1. IN A PRESS CONFERENCE ON JUNE 19, PRESIDENT SOMOZA DISCUSSED THE NEED FOR INCREASED DOMESTIC TAXES. (SEE REFTEL B). SINCE THEN RUMORS HAVE BEEN REMPANT IN NICARAGUA CONCERNING THE TYPE AND LEVEL OF FUTURE TAXES AND ON WHAT GOODS THEY MIGHT BE LEVIED. A LAW GRANTING AUTHORITY TO THE GON TO REVIEW THE FISCAL INCENTIVES AWARD-ED TO CERTAIN INDUSTRIES UNDER THE CENTRAL AMERICAN AGREE-MENT ON FISCAL INCENTIVES TO INDUSTRIAL DEVELOPMENT HAS ALREADY BEEN PASSED BY CONGRESS. (REFTEL A) IN RELATION TO OTHER TAX MEASURES TO BE PROPOSED, EMBOFFS HAVE CONTACTED MINISTRIES OF PLANNING, FINANCE, AND ECONOMY, AND THE CENTRAL BANK. INFORMATION CURRENTLY AVAIL-
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ABLE AND CITED BELOW IS TENTATIVE AND MAY BE CHANGED BEFORE A TAX PACKAGE IS IMPLEMENTED.

2. TAX ON CIGARETTES AND LIQUOR: AN INCREASE IN THE TAXES ON DOMESTICALLY PRODUCED CIGARETTES, RUM, BEER, AN AGUARDIENTE (INFORMAL: FIREWATER)

MAY BE PROPOSED. ALL THESE PRODUCTS ARE CURRENTLY SUBJECT TO HEAVY EXCISE TAXES.

ALTHOUGH VARIOUS ALTERNATIVES ARE BEING STUDIED, THE INCREASE IN TAXES WILL BE APPROXIMATELY EQUIVALENT TO TEN PERCENT OF THE RETAIL PRICE OF THE VARIOUS PRODUCTS.

3. INCREASE IN THE GENERAL SALES TAX: THE GENERAL SALES TAX MAY BE INCREASED TO 8 PERCENT FROM ITS PRESENT LEVEL OF 6 PERCENT. (IN ADDITION TO THE SALES TAX, A 2 PERCENT SOCIAL WELFARE TAX IS LEVIED ON ALL RETAIL SALES.) SOME EMBASSY SOURCES INDICATE THAT THE TAX WILL COVER ONLY SPECIFIED ITEMS, WHILE OTHER SOURCES INSIST IT WILL COVER ALL RETAIL SALES.

4. EXPORT TAX: WITHIN THE NEXT YEAR A NEW POLICY MAY BE PROPOSED WHICH WOULD TAX WINDFALL GAINS ON AGRICULTURAL EXPORTS-SPECIFICALLY COFFEE, MEAT, AND COTTON. INCREASES IN THE WORLD MARKET PRICE FOR A PRODUCT WOULD BE COMPARED TO PRODUCTION COST INCREASED WITHIN A GIVEN TIME FRAME, AND THE DIFFERENCE WOULD BE TAXED. (COMMENT: THE GON DID NOT TAX THE PROFITS GLEANED BY WEALTHY COFFEE GROWERS AND WORKERS WHEN THE PRICE OF COFFEE SOARED TWO YEARS AGO AND HAS BEEN INFORMALLY CIRCICISED BY THE INTERNATIONAL MONE-TARY FUND (IMF) FOR NOT DOING SO.)

5. ESTIMATES OF THE POTENTIAL ANNUAL REVENUES FROM THE TAX-LIMITED OFFICIAL USE

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ES NOTED ABOVE (PLUS THE ELIMINATION OF THE FISCAL INCENTIVE ON CORPORATE PROFITS FOR CERTAIN FIRMS) VARY FROM C\$200 MILLION TO C\$373 MILLION. HOWEVER, ONE EMBASSY SOURCE VOLUNTEERED THE FOLLOWING REVENUE BREAKDOWN (IN MILLIONS OF CORDOBAS): FISCAL INCENTIVE REVIEW, C\$80; BEER, C\$30; RUM NIL; CIGARETTES, C\$20; AGUARDIENTE, C\$4; 2 PERCENT SALES TAX INCREASE (ROUGH ESTIMATE), C\$110. TOTAL WOULD BE APPROXIMATELY 244 MILLION CORDOBAS WHICH IS EQUAL TO 14 PERCENT OF 1977 ORDINARY REVENUES AND 1.4 PERCENT OF ESTIMATED 1978 GDP. FIGURES INCLUDE CONSERVATIVE INFLATION ESTIMATES.

6. SELECTIVE CONSUMPTION TAX: EMBASSY HAS ALSO LEARNED THAT GON IS CONTEMPLATING AN INCREASE IN THE SELECTIVE CONSUMPTION TAX ON CERTAIN IMPORTED AND NATIONALLY PRODUCED GOODS. UNDER A 1974 LAW, A SURCHARGE IS A ADDED TO THE CIF VALUE PLUS TARIFFS OF CERTAIN GOODS IMPORTED TO NICARAGUA, WHILE A TAX OF THE SAME MAGNITUDE IS LEVIED ON THE RETAIL PRICE ON THE SAME GOODS WHICH ARE PRODUCED LOCALLY. (NOTE:

THESE SURCHARGES ARE LEVIED ON ALL GOODS, NOT JUST THOSE FROM CACM.) MOST OF THE GOODS WHICH ARE AFFECTED ARE LUXURY CONSUMER GOODS. THE CONTEMPLATED TAX WOULD INCREASE THE PRESENT SURCHARGES AND TAXES BY 50 PERCENT OF THEIR PRESENT RATES.

7. EXPORT INCENTIVES: GON IS ALSO CONSIDERING VARIOUS TAX MEASURES AS AN INCENTIVE TO INCREASED EXPORTS. ALTHOUGH THE PROGRAM IS NOT AS YET DEFINED, THE BASIC THRUST WOULD BE THE GRANTING OF AN INCOME TAX CREDIT TO ANY NICARAGUAN FIRM WHICH INCREASED ITS EXPORTS.

COMMENT: NONE OF THESE MEASURES HAS BEEN PROPOSED TO CONGRESS. ALTHOUGH IT SEEMS LIKELY THAT AT LEAST SOME OF THEM WILL BE INTRODUCED SHORTLY, LIMITED OFFICIAL USE

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OTHERS MAY GO INTO EFFECT BY EXECUTIVE DECREE. GON IS IN PART RESPONDING TO INTERNATIONAL MONETARY FUND REQUIREMENTS FOR A STABILIZATION PROGRAM BEFORE THE IMF AGREES TO A STANDBY LOAN ARRANGEMENT. (HOWEVER, SOME OF THESE MEASURES HAVE BEEN UNDER CONSIDERATION BY THE NICARAGUAN TECHNOCRACY FOR SOME TIME.) THE IMF STAND SEEMS TO BE WEAKENING RESISTANCE TO THE INTRODUCTION OF THOSE MEASURES AS POLICY IN ORDER TO ALLEVIATE THE CURRENT GON BUDGET DEFICIT AS DISCUSSED IN REFTELS. EMBASSY WILL REPORT ON SPECIFIC MEASURES WHEN AND IF FORMALLY INTRODUCED AND WILL INDICATE LOCAL REACTION TO THE PROPOSALS.

9. FOR ROCAP: EISNER/FRERES LETTER OF JULY 3, RAISES ISSUE OF BENEFITS TO NICARAGUAN INDUSTRIALISTS FROM NEW TAXES. NICARAGUA DOES NOT HAVE, TO OUR KNOWLEDGE, A VALUE-ADDED TAX, AND ITS SALES TAX IS LEVIED ON ALL RETAIL ITEMS AND IS NOT ADMINISTERED ON A SELECTIVE BASIS. ALL THE TAXES NOTED ABOVE (WITH THE EXCEPTION OF THE EXPORT TAX) ARE INCREASES IN EXISTING TAXES AND THE MAJOR REASON BEHIND THE POSSIBLE INCREASES IS THE CURRENT BUDGETARY PROBLEMS OF THE GON. EMBASSY DOES NOT FEEL THAT GON IS ATTEMPTING TO IMPROVE COMPETITIVE POSITION OF NICARAGUAN INDUSTRIES VIS-A-VIS OTHER CENTRAL AMERICAN MANUFACTURERS. IN FACT, SOME LOCAL INDUSTRIALISTS HAVE COMMENTED THAT THE TAXES WILL PUT NICARAGUAN INDUSTRIES AT A DISADVANTAGE IN THE CACM. EMBASSY WILL KEEP ROCAP'S CONCERNS IN MIND IN ANALYSIS OF FUTURE FISCAL TRENDS.
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